State of North Carolina

Office of State Budget and Management

Michael F. Easley
Governor and Director
of the Budget

David T. McCoy
State Budget Officer

August 4, 2005

MEMORANDUM

TO: Agency Chief Financial Officers
                  Agency Chief Information Officers

FROM: Jonathan Womer
                  Assistant State Budget Officer for Information Technology

RE: Criteria for Building Business Case Analyses for Information Technology (IT) Projects

During the IT project approval process the Office of State Budget and Management (OSBM) evaluates and approves the business case analyses for agency IT projects. Several agencies have requested criteria on how their business cases analyses are evaluated. At the Conceptual Portfolio Management Course in June, OSBM and Information Technology Services (ITS) took the opportunity to ask the participants how their business case analyses should be evaluated. Controlling for redundant recommendations, twenty-two were received and are attached (last page). Some recommendations were for specific criteria and others were more general. OSBM believes that general evaluation criteria are most appropriate so agencies may list all the specifics that are unique to their project. Derived from the recommendations, the criteria OSBM will use to review IT project business cases is attached (pages 3 and 4).

IT projects exist to facilitate and improve business processes. As a result, the analysis that departments must conduct to meet the criteria will need to include program, IT, and Budget Office staff. The exact blend of staff will depend on the department and the type of project. But because this analysis is primarily financial, the Budget Office staff should conduct the final review of the business case portion of the submission before approving the project to be submitted to ITS.

The criteria are not meant to be comprehensive of every issue OSBM could review on an IT project. All current law and policy that affects an IT project will still be examined. Rather, the criteria are a standard that OSBM will use to determine whether a department has made a business case for their IT project.

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The criteria may be a challenge for some projects. The ITS Enterprise Project Management Office (EPMO) website at http://www.epmo.scio.nc.gov/ has a number of written resources and methodologies. In addition, the Project Management Advisors from ITS can help department staff understand the business case criteria and input them into the IT Portfolio Management Tool. Please contact your OSBM budget analyst if you need program expertise concerning the analysis of a program that the IT project facilitates.

As a follow up to the Conceptual Portfolio Management Course, OSBM and ITS will hold a pilot business case workshop on Wednesday, August 24th from 1:00 to 5:00 pm (location will be announced later). The participants will identify potential benefits of actual agency business cases that are currently being developed. Agencies are encouraged to send program/business management as well as IT or financial managers. Please contact Jonathan Womer (jonathan.womer@ncmail.net) by August 10th, if you are interested in having members of your organization participate.

Thank you for your attention to this matter. If you have any questions about this memorandum, please contact Jonathan Womer or your OSBM budget analyst at (919) 733-7061.

cc: George Bakolia, State Chief Information Officer
        Bill Willis, Deputy State Chief Information Officer
        Robert Powell, State Controller

Criteria for Reviewing the Business Case
Version 1.0
August 2, 2005

1. **Cost-Benefit Analysis. Are the expected benefits greater than the expected costs?**
   a. Does the department have (for the current phase), or is it likely to have, (for future phases) sufficient funds to complete the project and realize the benefits?
   b. Has the total cost of ownership (TCO) been accurately estimated? Have the costs of "unbudgeted" items (such as staff time) been included?

   The benefits must be greater than the costs. Benefits include not only improvements such as increased revenue, but also cost savings, time savings, and cost avoidance. Typically, private sector IT projects are not approved unless benefits exceed costs by 6% to over 33%. These criteria only require that benefits exceed costs. In order to make this comparison, the benefits and the costs must both be expressed in monetary terms. Many benefits are qualitative and are not direct revenue or cost avoidance. The requirement to express these benefits in monetary terms will often necessitate making estimates based on reasonable assumptions. Complying with this requirement will also allow departments to better explain the need for the project and will allow departments to prioritize projects internally.

   The cost-benefit analysis should be conducted using the department's current state as the baseline. If a legacy system or manual system is being replaced then the benefits for the new system should include the projected cost savings of no longer maintaining the current system, as well as new process improvement benefits from the new system. The benefits or costs may accrue to the public or the State anytime over the lifecycle of the system.

Inputting the Data into the IT Portfolio Management Tool

   Costs are input into the Budget Cost tab (see pages 75-78 of the UMT Training and Reference Manual). Note the Comments button (see page 78). Use it for any necessary explanation.

   Benefits are input into the Benefit Estimates tab and the Strategic Impact tab (see pages 79-86 of the UMT Training and Reference Manual). In the Strategic Impact tab five common IT project benefits have been listed as Business Drivers. Use these to start to explain the estimate of the project benefits. Use the Comments button in each Benefits Driver to explain all benefits estimation. Total monetary benefits are input into the Benefit Estimates tab. These must be greater than the monetary costs in the Budget Cost tab. Use the Comments button to show how the benefit estimates from the Strategic Impact tab tie together and to explain any other benefits. The specific benefit data provided in these two tabs should directly link to the more general information in the Business Issues and Business Goals section of the Project Info tab (see page 68).

2. **Cost Effectiveness. Are the business objectives of the project being achieved in a reasonably cost effective manner?**
   a. If the project automates a common function, is the software being bought rather than built? Are business processes being reengineered rather than modifying purchased software?
   b. If the project is greater than $10 Million (lifecycle), has an analysis of alternatives been conducted of reasonable alternatives?

Generally it is cheaper to buy software than to build new software as long as the software is not modified by the state. Avoiding modification often requires business process reengineering. Larger projects are required to discuss alternative approaches for delivering the business objectives of the projects because of multiple paths automation can take in a large project.

Inputting the Data into the IT Portfolio Management Tool
These criteria should be addressed across the Business Issues and Business Goals section and the Project Definition section of the Project Info tab (see pages 68 and 69). Larger projects (above $10 million lifecycle costs) are required to complete the alternatives analysis attachment contained in the tool.

Agency suggestions for criteria (in no particular order):

1. Does the project fulfill a legislative mandate?
2. How much does it benefit the public?
3. Can the application be use by multiple agencies?
4. Does the project further the strategic plan of the agency or the state?
5. Does the project generate revenue?
6. Are the benefits greater than the costs in terms of dollars?
7. Does the project have a positive return on investment?
8. Does the project reduce risk?
9. Does the project increase customer (public) satisfaction?
10. Does the project increase the safety of staff and citizens?
11. Does the project increase efficiency?
12. Will the application use current technology?
13. Will the application be strategically aligned with state goals?
14. Does the agency have prior success in completing projects?
15. Is the project the most important use of resources?
16. How much of the project is paid with state funds?
17. Does the project improve the business process it implements?
18. Is the business case realistic?
19. How much time will it take to implement?
20. Is the business case clear?
21. Is funding available?
22. Is the project a better choice than the alternatives?